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CITY OF HARRISON
CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2008

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INDEPENDENT AUDITORS' REPORT

February 11, 2009

Members of the City Council
City of Harrison
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and aggregate remaining fund information of the City of Harrison, as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, the aggregate discretely presented component unit, each major fund and aggregate remaining fund information of the City of Harrison as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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Members of the City Council
City of Harrison
February 11, 2009
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated February 11, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

CITY OF HARRISON

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Our discussion and analysis of the City of Harrison's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2008.

Financial Highlights

The General Fund reported an increase in fund balance of \$39,691 resulting in a balance of \$750,658 at the end of the year. Ending fund balance for the City's other major funds was \$137,306 for the Library Operating Fund, \$376,351 for the Fire Fund and \$684,010 for the Local Improvement Fund.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Harrison financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the Government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Government acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the Major Governmental Funds (Required Supplemental Information)

Other Supplemental Information

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

These two statements report the City's net assets as a way to measure the City's financial position. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including the major streets fund, local streets fund and general administration. Sales taxes (stated shared revenues), property taxes and franchise fees finance most of these activities.
- **Business Type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer systems and garbage collections are reported here.
- **Component Unit** – The City includes a separate legal entity in its report – Downtown Development Authority. Although legally separate, this component unit is important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Proprietary Funds

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities and garbage collection.

Fiduciary Funds

The City is the trustee, or fiduciary, for tax collections. All of the City's fiduciary activities are reported in separate Statements of Net Assets. We excluded these activities from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the City as a whole. Exhibit A provides a summary of the City's net assets as of December 31, 2008 and 2007.

<u>Exhibit A</u>	Governmental Activities		Business-type Activities		Total	
	(In thousands)		(In thousands)		(In thousands)	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 2,236	\$ 1,941	\$ 1,707	\$ 1,622	\$ 3,943	\$ 3,563
Capital assets - net of accumulated depreciation	1,834	2,071	13,914	14,308	15,748	16,379
Total Assets	4,070	4,012	15,621	15,930	19,691	19,942
Liabilities						
Current liabilities	40	21	94	87	134	108
Long-term liabilities	695	712	4,857	4,947	5,552	5,659
Total Liabilities	735	733	4,951	5,034	5,686	5,767
Net Assets						
Invested in property and equipment -net of related debt	1,119	1,341	8,967	9,278	10,086	10,619
Restricted	2	0	485	493	487	493
Unrestricted	2,214	1,938	1,218	1,125	3,432	3,063
Total Net Assets	\$ 3,335	\$ 3,279	\$ 10,670	\$ 10,896	\$ 14,005	\$ 14,175

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Exhibit A, on the previous page, focuses on net assets. The City's total net assets were approximately \$14.0 million at December 31, 2008. Capital assets, net of related debt, totaling approximately \$10.1 million compares the original costs, less depreciation of the City's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$500,000 are reported separately to show legal constraints from debt requirements and legislation that limit the City's ability to use those net assets for day-to-day operations.

The \$3.4 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2008. Exhibit B provides a summary of the changes in net assets for the years ended December 31, 2008 and 2007.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Exhibit B</u>						
Revenue						
Program revenue:						
Charges for services	\$ 324	\$ 414	\$ 885	\$ 907	\$ 1,209	\$ 1,321
Grants and contributions	8	26	18	328	26	5
General revenue:						
Property taxes	743	732	0	0	743	732
State revenue sharing	355	369	0	0	355	369
Interest and investment earnings	37	61	36	72	73	133
Other	289	162	15	33	304	195
Loss on sale of assets	<u>(66)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(66)</u>	<u>0</u>
Total revenue	<u>1,690</u>	<u>1,764</u>	<u>954</u>	<u>1,340</u>	<u>2,644</u>	<u>2,755</u>
Function/Program Expenses						
General government	397	319	0	0	397	319
Public safety	431	413	0	0	431	413
Public service	287	310	0	0	287	310
Highways and streets	198	225	0	0	198	225
Recreation and culture	287	288	0	0	287	288
Sewer	0	0	656	645	656	645
Water	0	0	409	423	409	423
Garbage and rubbish	0	0	114	111	114	111
Interest on long-term debt	<u>34</u>	<u>34</u>	<u>0</u>	<u>0</u>	<u>34</u>	<u>34</u>
Total expenses	<u>1,634</u>	<u>1,589</u>	<u>1,179</u>	<u>1,179</u>	<u>2,813</u>	<u>2,768</u>
Change in Net Assets	<u>\$ 56</u>	<u>\$ 175</u>	<u>\$ (225)</u>	<u>\$ 161</u>	<u>\$ (169)</u>	<u>\$ (13)</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was \$2.8 million. Certain activities were partially funded by \$1.2 million from those who benefited from the programs, or by the other Cities and organizations that subsidized certain programs with operating grants and contributions of \$26,000. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$743,000 in taxes, \$355,000 in State revenue sharing and with our other revenues, such as interest and miscellaneous revenues.

The City experienced an decrease in net assets of \$169,000 mainly due to higher personnel costs and abnormal repairs and maintenance expenses. The City's revenues decreased due to a decrease in grants in contributions and interest and investment earnings. The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The City's Funds

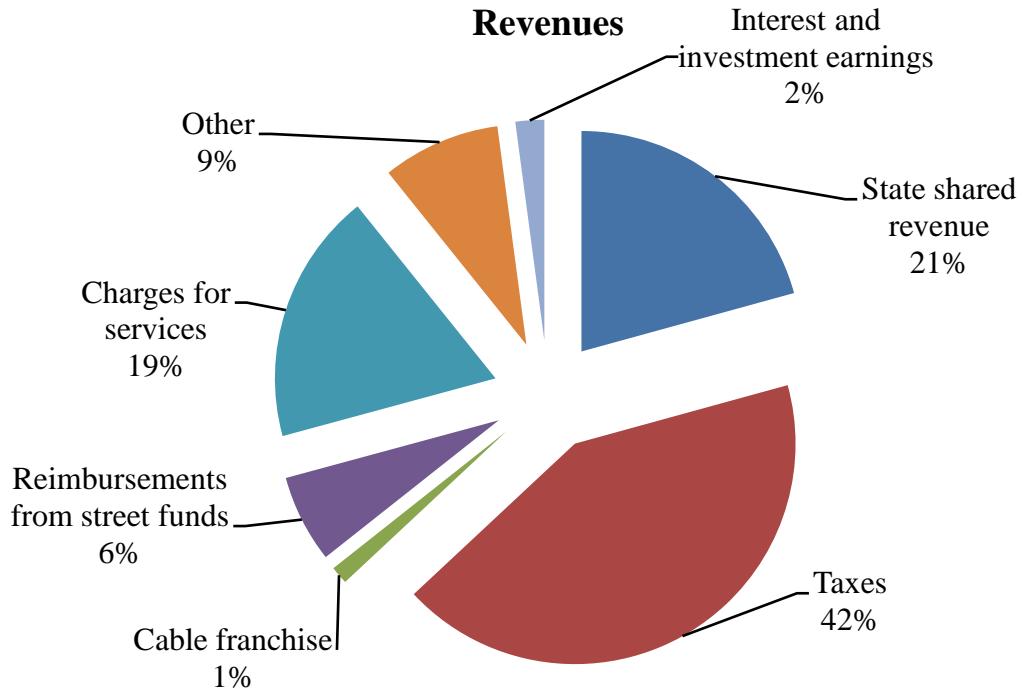
The City uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the City is being accountable for the resources taxpayers and others provide to it and may provide more insight into the City's overall financial health.

The City's Governmental funds reported a combined fund balance of \$2.2 million which is up from last year's total of \$1.9 million. The schedule below details the fund balance and the total change in fund balances as of December 31, 2008 and 2007.

	<u>Fund Balance</u> <u>December 31, 2008</u>	<u>Fund Balance</u> <u>December 31, 2007</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 751,000	\$ 711,000	\$ 40,000
Major Streets	127,000	131,000	(4,000)
Local Streets	42,000	52,000	(10,000)
Budd Lake	97,000	87,000	10,000
Building Authority	2,000	3,000	(1,000)
Library Operating	137,000	111,000	26,000
Fire	376,000	273,000	103,000
Local Improvement	684,000	570,000	114,000
Total	<u>\$ 2,216,000</u>	<u>\$ 1,938,000</u>	<u>\$ 278,000</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

The graph below details the major sources of the City's governmental fund revenue.



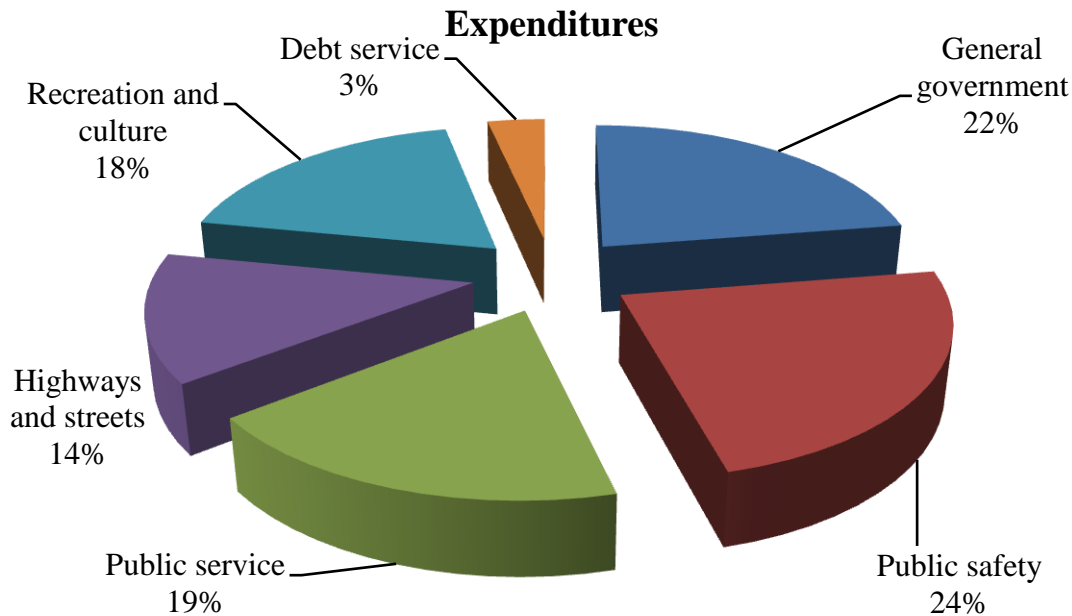
The chart below compares current year revenues with last year.

	2008	2007
<i>Revenues by Function</i>		
State shared revenue	\$ 364,000	\$ 369,000
Taxes	743,000	732,000
Cable franchise	23,000	12,000
Reimbursements from street funds	113,000	89,000
Charges for services	324,000	313,000
Other	152,000	203,000
Interest and investment earnings	37,000	61,000
Total	<u>\$ 1,756,000</u>	<u>\$ 1,779,000</u>

Revenues are down \$23,000 due to decreased grant and interest revenue. These decreases were offset by increased tax revenue as a result of a rise in property values. The reimbursement to the general fund from the street funds for use of equipment and services also increased during the year.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

The graph below details the major expenditure categories of the City.



The chart below compares current year expenditures with last year.

	2008	2007
<i>Expenditures by Function</i>		
General government	\$ 330,000	\$ 312,000
Public safety	345,000	326,000
Public service	241,000	234,000
Highways and streets	198,000	225,000
Recreation and culture	270,000	272,000
Debt service	50,000	50,000
Capital outlay	30,000	114,000
Total	<u>\$ 1,464,000</u>	<u>\$ 1,533,000</u>

Expenditures are down \$70,000 from the prior year due to an decrease in the cost of street paving and capital outlay purchases. These decreases in expenditures were off set by increases in personnel and repairs and maintenance expenses.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Business-Type Activities -The City's Proprietary Funds show the activity of the Water Fund, Sewer Fund and Garbage Collection Fund. The Water Fund reported net assets of \$2.9 million and a net decrease in net assets of \$68,000. The decrease in net assets is mainly due to the increase in operating expenses and a decrease in interest revenue. The Sewer Fund reported net assets of \$7.8 million and a net decrease in assets of \$155,000. The decrease in net assets is mainly due to a decrease in grants and interest revenue received. The Garbage Collection Fund reported net assets of \$21,000 and a net decrease of \$2,000. The net decrease in net assets is mainly due to an increase in contractual services.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

General Fund Budgetary Highlights

Over the course of the year, the City revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the City's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

There were immaterial differences between the original and final budgeted revenue.

Budget expenditures were decreased primarily due to delaying certain projects until the next year and they were anticipating more expenditures in personnel costs earlier in the year than what they occurred. The actual expenditures were in-line with the final budget.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Capital Assets

At December 31, 2008, the City had \$15.7 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net decrease (including additions and disposals) of approximately \$632,000 or 3.8%, from last year. The amounts below are shown in thousands.

	Governmental Activities		Business-Type Activities		Totals	
	(in thousands)		(in thousands)		(in thousands)	
	2008	2007	2008	2007	2008	2007
Land	\$ 356	\$ 356	\$ 317	\$ 317	\$ 673	\$ 673
Buildings and improvements	1,157	1,157	3,887	3,887	5,044	5,044
Land improvements	216	216	0	0	216	216
Vehicles	799	1,025	0	0	799	1,025
Machinery and equipment	773	769	1,006	1,006	1,779	1,775
Water system	0	0	4,234	4,236	4,234	4,236
Sewer system	0	0	8,676	8,659	8,676	8,659
 Total capital assets	 3,301	 3,523	 18,120	 18,105	 21,421	 21,628
 Less accumulated depreciation	 1,467	 1,452	 4,207	 3,797	 5,674	 5,249
 Net capital assets	 <u>\$ 1,834</u>	 <u>\$ 2,071</u>	 <u>\$ 13,913</u>	 <u>\$ 14,308</u>	 <u>\$ 15,747</u>	 <u>\$ 16,379</u>

This year's governmental activities additions of \$18,000 included a copy machine and a new mower. This year's business-type activities additions of \$18,000 included the completion of the sewer capacity project.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2008

Debt

At the end of this year, the City had \$5.7 million in long-term debt outstanding versus \$5.8 million in the previous year – a decrease of \$100,000. The City's debt includes revenue bonds for its sewer and water systems and general obligation bonds for its fire hall. This debt is summarized as follows:

	<u>2008</u>	<u>2007</u>
	(in thousands)	(in thousands)
Revenue Bonds	\$ 4,947	\$ 5,030
General Obligation Bonds	712	728
	<u>\$ 5,659</u>	<u>\$ 5,758</u>

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust City expenditures in response to any revenue shortfall.

Contacting The City's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's Office at PO Box 378, Harrison, Michigan 48625.

CITY OF HARRISON
Statement of Net Assets
December 31, 2008

	<u>Primary Government</u>			
	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
	<u>Activities</u>	<u>Activities</u>		<u>Unit</u>
<u>Assets</u>				
Cash and investments	\$ 2,141,937	\$ 1,676,014	\$ 3,817,951	\$ 0
Receivables (net)	94,142	31,161	125,303	4,609
Capital assets - less accumulated depreciation of \$5,674,749	<u>1,834,040</u>	<u>13,913,542</u>	<u>15,747,582</u>	<u>0</u>
Total Assets	<u>4,070,119</u>	<u>15,620,717</u>	<u>19,690,836</u>	<u>4,609</u>
<u>Liabilities</u>				
Accounts payable	246	0	246	0
Customers' deposits	0	3,790	3,790	0
Deferred revenue	5,723	0	5,723	0
Internal balances	14,090	0	14,090	0
Accrued liabilities	32	0	32	0
Interest payable	2,745	0	2,745	0
Noncurrent liabilities:				
Due within one year	17,000	90,000	107,000	0
Due in more than one year	<u>695,000</u>	<u>4,857,000</u>	<u>5,552,000</u>	<u>0</u>
Total Liabilities	<u>734,836</u>	<u>4,950,790</u>	<u>5,685,626</u>	<u>0</u>
<u>Net Assets</u>				
Invested in capital assets net of related debt	1,119,295	8,966,542	10,085,837	0
Restricted for other purposes	2,130	485,500	487,630	0
Unrestricted	<u>2,213,858</u>	<u>1,217,885</u>	<u>3,431,743</u>	<u>4,609</u>
Total Net Assets	<u>\$ 3,335,283</u>	<u>\$ 10,669,927</u>	<u>\$ 14,005,210</u>	<u>\$ 4,609</u>

See accompanying notes to financial statements

CITY OF HARRISON
Statement of Activities
For the Year Ended December 31, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
			Operating	Capital	Primary Government				
Functions/Programs	Expenses	Charges for	Grants and	Grants and	Governmental	Business-Type	Total	Component	
		Services	Contributions	Contributions	Activities	Activities		Unit	
Primary government:									
General government	\$ 397,287	\$ 11,322	\$ 0	\$ 0	\$ (385,965)	\$ 0	\$ (385,965)	\$ 0	
Public safety	431,470	0	0	0	(431,470)	0	(431,470)	0	
Public service	286,518	268,012	0	0	(18,506)	0	(18,506)	0	
Highways and streets	198,197	0	0	0	(198,197)	0	(198,197)	0	
Recreation and cultural	287,289	44,430	8,462	0	(234,397)	0	(234,397)	0	
Interest on long-term debt	33,578	0	0	0	(33,578)	0	(33,578)	0	
Total governmental activities	1,634,339	323,764	8,462	0	(1,302,113)	0	(1,302,113)	0	
Business-type activities:									
Sewer	656,115	461,218	0	17,736	0	(177,161)	(177,161)	0	
Water	409,028	311,445	0	0	0	(97,583)	(97,583)	0	
Garbage collections	114,852	112,736	0	0	0	(2,116)	(2,116)	0	
Total business-type activities	1,179,995	885,399	0	17,736	0	(276,860)	(276,860)	0	
Total primary government	\$ 2,814,334	\$ 1,209,163	\$ 8,462	\$ 17,736	(1,302,113)	(276,860)	(1,578,973)	0	
General Revenues:									
					742,656	0	742,656	4,609	
					355,082	0	355,082	0	
					37,378	36,300	73,678	0	
					289,689	15,054	304,743	0	
					(65,917)	0	(65,917)	0	
					1,358,888	51,354	1,410,242	4,609	
					56,775	(225,506)	(168,731)	4,609	
					3,278,508	10,895,433	14,173,941	0	
					\$ 3,335,283	\$ 10,669,927	\$ 14,005,210	\$ 4,609	

See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Balance Sheet
December 31, 2008

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 692,541	\$ 143,139	\$ 376,351	\$ 684,010	\$ 245,896	\$ 2,141,937
Receivables - net	72,239	136	0	0	21,767	94,142
Total Assets	<u>\$ 764,780</u>	<u>\$ 143,275</u>	<u>\$ 376,351</u>	<u>\$ 684,010</u>	<u>\$ 267,663</u>	<u>\$ 2,236,079</u>
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 0	\$ 246	\$ 0	\$ 0	\$ 0	\$ 246
Accrued liabilities	32	0	0	0	0	32
Due to other funds	14,090	0	0	0	0	14,090
Deferred revenue	0	5,723	0	0	0	5,723
Total liabilities	<u>14,122</u>	<u>5,969</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,091</u>
<u>Fund Balance</u>						
Unreserved	750,658	135,176	376,351	684,010	267,663	2,213,858
Reserved for building	0	2,130	0	0	0	2,130
Total fund balance	<u>750,658</u>	<u>137,306</u>	<u>376,351</u>	<u>684,010</u>	<u>267,663</u>	<u>2,215,988</u>
Total Liabilities and Fund Balance	<u>\$ 764,780</u>	<u>\$ 143,275</u>	<u>\$ 376,351</u>	<u>\$ 684,010</u>	<u>\$ 267,663</u>	<u>\$ 2,236,079</u>

See accompanying notes to financial statements

CITY OF HARRISON
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2008

Total fund balance - governmental funds	\$ 2,215,988
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
Cost of the capital assets	3,301,342
Accumulated depreciation	(1,467,302)
Accrued interest payable is not included as a liability in governmental activities	(2,745)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	<u>(712,000)</u>
Total net assets - governmental activities	<u><u>\$ 3,335,283</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2008

	General Fund	Library Operating Fund	Fire Fund
<u>Revenues</u>			
State shared revenue	\$ 189,106	\$ 8,462	\$ 0
Taxes and penalties	708,886	0	0
Cable franchise	23,482	0	0
Reimbursements from street funds	113,405	0	0
Charges for services	11,322	44,430	268,012
Penal fines	0	82,428	0
Miscellaneous	4,370	27,365	30,980
Interest	9,867	3,279	8,652
Sales	1,775	0	0
	<u>1,062,213</u>	<u>165,964</u>	<u>307,644</u>
Total revenues			
<u>Expenditures</u>			
General government	329,439	0	0
Public safety	204,749	0	139,688
Public service	189,105	0	0
Highways and streets	0	0	0
Recreation and cultural	85,986	184,761	0
Capital outlay	0	0	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
	<u>809,279</u>	<u>184,761</u>	<u>139,688</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>252,934</u>	<u>(18,797)</u>	<u>167,956</u>
<u>Other Financing Sources (Uses)</u>			
Transfers in	0	45,243	0
Transfers (out)	(213,243)	0	(64,724)
	<u>(213,243)</u>	<u>45,243</u>	<u>(64,724)</u>
Total other financing sources (uses)			
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	39,691	26,446	103,232
Fund balance - beginning of year	<u>710,967</u>	<u>110,860</u>	<u>273,119</u>
Fund balance - end of year	<u>\$ 750,658</u>	<u>\$ 137,306</u>	<u>\$ 376,351</u>

See accompanying notes to financial statements

Local Improvement Fund	Other Nonmajor Governmental Funds	Total
\$ 0	\$ 165,976	\$ 363,544
0	33,770	742,656
0	0	23,482
0	0	113,405
0	0	323,764
0	0	82,428
0	5,885	68,600
11,624	3,956	37,378
0	0	1,775
11,624	209,587	1,757,032
0	0	329,439
0	0	344,437
25,509	26,366	240,980
0	198,197	198,197
0	0	270,747
30,484	0	30,484
0	16,000	16,000
0	33,670	33,670
55,993	274,233	1,463,954
(44,369)	(64,646)	293,078
168,000	100,638	313,881
(10,000)	(40,968)	(328,935)
158,000	59,670	(15,054)
113,631	(4,976)	278,024
570,379	272,639	1,937,964
\$ 684,010	\$ 267,663	\$ 2,215,988

CITY OF HARRISON
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2008

Net change in fund balance - total governmental funds	\$ 278,024
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(189,048)
Capital outlay	17,625
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	91
In the statement of activities, only the loss on the sale of the fixed asset is reported, whereas in the governmental funds, only the payments received on the land contract increase financial resources.	(65,917)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	<u>16,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 56,775</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Net Assets
December 31, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 814,486	\$ 846,436	\$ 15,092	\$ 1,676,014
Accounts receivable	<u>6,434</u>	<u>18,556</u>	<u>6,171</u>	<u>31,161</u>
Total current assets	820,920	864,992	21,263	1,707,175
Capital assets less accumulated depreciation of \$4,207,377	<u>3,982,759</u>	<u>9,930,783</u>	<u>0</u>	<u>13,913,542</u>
Total Assets	<u><u>\$4,803,679</u></u>	<u><u>\$10,795,775</u></u>	<u><u>\$ 21,263</u></u>	<u><u>\$ 15,620,717</u></u>
<u>Liabilities</u>				
Current liabilities:				
Customer deposits	\$ 3,790	\$ 0	\$ 0	\$ 3,790
Current portion of bonds payable	<u>42,000</u>	<u>48,000</u>	<u>0</u>	<u>90,000</u>
Total current liabilities	45,790	48,000	0	93,790
Bonds payable	<u>1,888,000</u>	<u>2,969,000</u>	<u>0</u>	<u>4,857,000</u>
Total Liabilities	<u>1,933,790</u>	<u>3,017,000</u>	<u>0</u>	<u>4,950,790</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	2,052,759	6,913,783	0	8,966,542
Restricted	197,500	288,000	0	485,500
Unrestricted	<u>619,630</u>	<u>576,992</u>	<u>21,263</u>	<u>1,217,885</u>
Total Net Assets	<u><u>\$2,869,889</u></u>	<u><u>\$ 7,778,775</u></u>	<u><u>\$ 21,263</u></u>	<u><u>\$ 10,669,927</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for services	\$ 276,721	\$ 455,130	\$ 110,945	\$ 842,796
Miscellaneous	3,871	6,088	1,791	11,750
Total operating revenues	<u>280,592</u>	<u>461,218</u>	<u>112,736</u>	<u>854,546</u>
<u>Operating Expenses</u>				
Wages and salaries	73,118	75,489	0	148,607
Fringe benefits	39,382	45,286	0	84,668
Operating expenses	11,575	15,813	0	27,388
Contractual services	10,510	16,317	114,381	141,208
Building and equipment maintenance	17,053	32,017	0	49,070
Utilities	18,432	49,212	0	67,644
Insurance	4,217	5,560	0	9,777
Depreciation	143,804	268,027	0	411,831
Other expenses	1,342	4,639	471	6,452
Total operating expenses	<u>319,433</u>	<u>512,360</u>	<u>114,852</u>	<u>946,645</u>
Operating income (loss)	<u>(38,841)</u>	<u>(51,142)</u>	<u>(2,116)</u>	<u>(92,099)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Rental income	30,853	0	0	30,853
Interest income	21,729	14,571	0	36,300
Grant revenue	0	17,736	0	17,736
Transfers in	7,527	7,527	0	15,054
Interest expenses and fees	(89,595)	(143,755)	0	(233,350)
Total nonoperating revenues (expenses)	<u>(29,486)</u>	<u>(103,921)</u>	<u>0</u>	<u>(133,407)</u>
Change in net assets	(68,327)	(155,063)	(2,116)	(225,506)
Net assets - beginning of year	<u>2,938,216</u>	<u>7,933,838</u>	<u>23,379</u>	<u>10,895,433</u>
Net assets - end of year	<u><u>\$2,869,889</u></u>	<u><u>\$7,778,775</u></u>	<u><u>\$ 21,263</u></u>	<u><u>\$ 10,669,927</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2008

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 275,082	\$ 477,420	\$ 114,174	\$ 866,676
Cash payments to suppliers for goods and services	(63,829)	(123,558)	(114,852)	(302,239)
Cash payments to employees for services	(112,500)	(120,775)	0	(233,275)
Net cash flows from operating activities	<u>98,753</u>	<u>233,087</u>	<u>(678)</u>	<u>331,162</u>
<u>Cash flows from capital and related financing activities</u>				
Acquisition and construction of capital assets	0	(17,739)	0	(17,739)
Principal paid on long-term debt	(36,000)	(47,000)	0	(83,000)
Interest paid on long-term debt	(89,595)	(143,755)	0	(233,350)
Net cash flows from capital and related financing activities	<u>(125,595)</u>	<u>(208,494)</u>	<u>0</u>	<u>(334,089)</u>
<u>Cash flows from noncapital and related financing activities</u>				
Rental and other income	30,853	17,736	0	48,589
Transfers in	7,527	7,527	0	15,054
Net cash flows from noncapital and related financing activities	<u>38,380</u>	<u>25,263</u>	<u>0</u>	<u>63,643</u>
<u>Cash flows from investing activities</u>				
Interest income	<u>21,729</u>	<u>14,571</u>	<u>0</u>	<u>36,300</u>
Net increase (decrease) in cash and investments	33,267	64,427	(678)	97,016
Cash and investments - beginning of year	<u>781,219</u>	<u>782,009</u>	<u>15,770</u>	<u>1,578,998</u>
Cash and investments - end of year	<u><u>\$ 814,486</u></u>	<u><u>\$ 846,436</u></u>	<u><u>\$ 15,092</u></u>	<u><u>\$ 1,676,014</u></u>
 <u>Reconciliation of Cash Flows from Operations</u>				
Operating income (loss)	\$ (38,841)	\$ (51,142)	\$ (2,116)	\$ (92,099)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation	143,804	268,027	0	411,831
Changes in operating assets and liabilities:				
Accounts receivable	(5,510)	16,202	1,438	12,130
Customer deposits	(700)	0	0	(700)
Net cash flows from operating activities	<u><u>\$ 98,753</u></u>	<u><u>\$ 233,087</u></u>	<u><u>\$ (678)</u></u>	<u><u>\$ 331,162</u></u>

See accompanying notes to financial statements.

CITY OF HARRISON
Fiduciary Fund
Statement of Net Assets
December 31, 2008

	Agency Fund Type (Property Tax Collection Fund)
<u>Assets</u>	
Cash	\$ 61,931
Due from other funds	14,090
Total Assets	<u>\$ 76,021</u>
 <u>Liabilities</u>	
Undistributed taxes	 <u>\$ 76,021</u>

See accompanying notes to financial statements

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Harrison conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harrison:

Reporting Entity

The City of Harrison is governed by an elected council with a City Clerk overseeing daily operations. The accompanying financial statements present the financial position and results of operations for the City.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

Discretely Presented Component Units - The component unit column in the basic financial statements, which represents the financial data of the City of Harrison Downtown Development Authority, is reported in a separate column to emphasize that it is legally separate from the City. The governing body of the Downtown Development Authority consists of the Chief Executive Officer of the City of Harrison and seven (7) members as provided by Act 197. The Authority was established to serve all the citizens of the government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The non-major funds are presented in a single column in the fund financial statements and are detailed in the other supplemental information. On the proprietary fund statements, the Garbage Collection Fund is a non-major fund.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Library Operating Fund – The Library Operating Fund is used to maintain and update the library facilities.

Fire Fund – The Fire Fund is used operate the City’s fire protection and rescue services.

Local Improvement Fund – The Local Improvement Fund is used to record transactions relative to the local improvement services provided by the City.

The City reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the water distribution system.

Sewer Fund – The Sewer Fund accounts for the activities of the sewage collection system.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Cash - \$485,500 of the Enterprise Fund's cash and investments is restricted for required bond reserves (Note 11).

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Water system	25 to 30 Years
Sewer system	50 Years
Buildings and improvements	20 to 40 Years
Vehicles	5 to 7 Years
Machinery and equipment	3 to 12 Years

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

1. The City Clerk submits to the City Council a proposed budget prior to December 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund are presented as Required Supplemental Information

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The City's deposits are in accordance with statutory authority.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

Governmental activities	\$ 2,141,937
Business-type activities	1,676,014
Fiduciary funds	<u>61,931</u>
Total	<u><u>\$ 3,879,882</u></u>

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 3,879,782
Petty cash and cash on hand	<u>100</u>
Total	<u><u>\$ 3,879,882</u></u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2008, \$3,265,107 of the City's bank balance of \$3,825,449 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 4 - CAPITAL ASSETS

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 356,201	\$ 0	\$ 0	\$ 356,201
Capital assets being depreciated:				
Buildings and improvements	1,156,379	0	0	1,156,379
Land improvements	216,289	0	0	216,289
Vehicles	1,025,187	0	226,000	799,187
Machinery and equipment	768,798	17,625	13,137	773,286
Subtotal	3,166,653	17,625	239,137	2,945,141
Less accumulated depreciation for:				
Buildings and improvements	196,165	29,913	0	226,078
Land improvements	45,555	9,589	0	55,144
Vehicles	572,020	93,884	160,083	505,821
Machinery and equipment	637,735	55,661	13,137	680,259
Subtotal	1,451,475	189,047	173,220	1,467,302
Net capital assets being depreciated	1,715,178	(171,422)	65,917	1,477,839
Governmental activities, total capital assets - net of depreciation	<u>\$ 2,071,379</u>	<u>\$ (171,422)</u>	<u>\$ 65,917</u>	<u>\$ 1,834,040</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 316,997	\$ 0	\$ 0	\$ 316,997
Construction in progress	0	0	0	0
Total capital assets not being depreciated:	316,997	0	0	316,997
Capital assets being depreciated:				
Water system	4,235,793	0	1,208	4,234,585
Sewer system	8,658,248	17,739	0	8,675,987
Buildings	3,887,148	0	0	3,887,148
Machinery and equipment	1,006,202	0	0	1,006,202
Total capital assets being depreciated	17,787,391	17,739	1,208	17,803,922
Less accumulated depreciation for:				
Water system	885,034	92,694	1,208	976,520
Sewer system	2,157,606	174,117	0	2,331,723
Buildings	343,389	80,408	0	423,797
Machinery and equipment	410,725	64,612	0	475,337
	3,796,754	411,831	1,208	4,207,377
Net capital assets being depreciated	13,990,637	(394,092)	0	13,596,545
Business-type activities, total capital assets, net of depreciation	<u>\$ 14,307,634</u>	<u>\$ (394,092)</u>	<u>\$ 0</u>	<u>\$ 13,913,542</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government	\$	85,473
Public safety		87,032
Culture and recreation		<u>16,542</u>
Total governmental activities depreciation expense	\$	<u>189,047</u>
Business-type activities:		
Water	\$	143,804
Sewer		<u>268,027</u>
Total business-type activities depreciation expense	\$	<u>411,831</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund transfers made during the year ended December 31, 2008 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 0	\$ 213,243	\$ 0	\$ 14,090
Library Fund	45,243	0	0	0
Fire Fund	0	64,724	0	0
Local Improvement Fund	168,000	10,000	0	0
Major Street Fund	0	40,968	0	0
Local Street Fund	50,968	0	0	0
Building Authority Fund	49,670	0	0	0
Water Fund	7,527	0	0	0
Sewer Fund	7,527	0	0	0
Tax Fund	0	0	14,090	0
	<u>\$ 328,935</u>	<u>\$ 328,935</u>	<u>\$ 14,090</u>	<u>\$ 14,090</u>

The primary purpose of the receivables/payables is to reflect amounts due to the tax fund as of December 31, 2008 for overpayment.

The General Fund transferred \$168,000 to the Local Improvement Fund to cover operational costs.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

The Fire Fund transferred \$7,527 to the Sewer Fund and \$7,527 to the Water Fund to cover operational costs

The Local Improvement Fund transferred \$10,000 to the Local Street Fund to cover costs for improving the local streets.

The Major Street Fund transferred \$40,968 to the Local Streets Fund to cover operational costs.

NOTE 6 - LONG-TERM DEBT

A summary of the City's long term debt is as follows:

Government Activities

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Building Authority Bonds, due in annual installments of \$1,000 to \$25,000 through December 1, 2031, with an interest rate of 4.625%.	<u>\$ 728,000</u>	<u>\$ (16,000)</u>	<u>\$ 712,000</u>

Business-Type Activities

1984 Water System Revenue Bonds, due in annual installments of \$5,000 to \$30,000 through December 31, 2020 with an interest rate of 5.0%.	\$ 300,000	\$ (15,000)	\$ 285,000
2002 Water Supply System Junior Lien Revenue bonds, due in annual installments of \$1,000 to \$94,000 through July 1, 2040 with an interest rate of 4.5%.	1,666,000	(21,000)	1,645,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	999,000	(20,000)	979,000

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Business-Type Activities (Continued)

1994 Sewer Disposal System Revenue
Bonds, series 92-04, due in annual
installments of \$1,000 to \$12, 000 through
September 1, 2033 with and interest rate of
5.0% .

\$	176,000	\$	(3,000)	\$	173,000
----	---------	----	---------	----	---------

2002 Sewage Disposal System Junior Lien
Revenue Bonds, due in annual installments
of \$3,000 to \$105,000 through September 1,
2041 with an interest rate of 4.5% .

<u>1,889,000</u>	<u>(24,000)</u>	<u>1,865,000</u>
------------------	-----------------	------------------

Total Business-Type Activities

<u>\$ 5,030,000</u>	<u>\$ (83,000)</u>	<u>\$ 4,947,000</u>
---------------------	--------------------	---------------------

Long-term obligation activity can be summarized as follows:

	Balance January 1, 2007	Additions	Retirements and Payments	Balance December 31, 2008	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds	<u>\$ 728,000</u>	<u>\$ 0</u>	<u>\$ 16,000</u>	<u>\$ 712,000</u>	<u>\$ 17,000</u>
<u>Business-Type Activities</u>					
Revenue Bonds	<u>\$ 5,030,000</u>	<u>\$ 0</u>	<u>\$ 83,000</u>	<u>\$ 4,947,000</u>	<u>\$ 90,000</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended December 31	Government-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 17,000	\$ 32,930	\$ 90,000	\$ 229,305
2010	18,000	32,144	96,000	225,018
2011	19,000	31,311	98,000	220,445
2012	20,000	30,433	102,000	215,783
2013	21,000	29,508	106,000	210,930
2014-2018	123,000	131,905	622,000	972,201
2019-2023	154,000	100,688	683,000	814,681
2024-2028	196,000	61,327	789,000	648,683
2029-2033	144,000	13,504	994,000	444,689
2034-2038	0	0	796,000	230,738
2039-2041	0	0	571,000	46,080
Total	<u>\$ 712,000</u>	<u>\$ 463,750</u>	<u>\$ 4,947,000</u>	<u>\$ 4,258,553</u>

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City of Harrison participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Harrison. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City of Harrison's competitive bargaining units and requires a contribution from the employees of 3% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual Pension Costs – For year ended December 31, 2008, the City of Harrison's annual pension cost of \$54,190 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal actuarial cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increase of 4.5% per year, and (iii) 2.5% per year cost of living adjustments. These assumptions were determined using techniques that smooth the effects of short-term volatility over a four-year period.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of December 31, 2008 follows:

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 49,080	\$ 55,859	\$ 54,190
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	1,586,727	1,716,196	1,857,203
Actuarial accrued liability	2,007,200	2,098,742	2,209,098
Unfunded AAL	420,473	382,546	351,895
Funded ration	79%	82%	84%
Covered payroll	432,593	425,846	433,636
UAL as a percentage of covered payroll	97%	90%	81%

NOTE 8 – POST-EMPLOYMENT BENEFITS

The City has elected to provide post-employment health benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Currently, two retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 2008, the City made payments for post-employment health benefit premiums of \$12,600.

NOTE 9 – OPERATING LEASE

The City leases office and storage space in its fire station to the Department of Natural Resources under an operating lease that expires in June 2013. Annual rent is \$30,815 and the lessee has two five-year options. Minimum future rentals are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 30,815
2010	30,815
2011	30,815
2012	30,815
2013	15,407
	<u>\$ 138,667</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2008

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts and errors and omissions. The City has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 11 - NET ASSETS - RESTRICTED

As required by various bond ordinances, the City has established and funded reserves for bond retirement of \$197,500 for the Water Fund and \$288,000 for the Sewer Fund.

NOTE 12 - FUTURE REPORTING CHANGE

The Governmental Accounting Standards Board has recently released statement number 45, Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing future retiree healthcare premiums. The new pronouncement is effective for the year ending December 31, 2009.

CITY OF HARRISON
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 162,400	\$ 162,400	\$ 189,106	\$ 26,706
Taxes and penalties	687,668	687,668	708,886	21,218
Cable franchise	9,000	17,000	23,482	6,482
Reimbursements from street funds	50,000	50,000	113,405	63,405
Charges for services	7,600	7,600	11,322	3,722
Miscellaneous	2,600	2,600	4,370	1,770
Interest	10,000	10,000	9,867	(133)
Sales	1,000	1,000	1,775	775
Total revenues	930,268	938,268	1,062,213	123,945
<u>Expenditures</u>				
General government	461,249	450,949	329,439	121,510
Public safety	224,630	230,742	204,749	25,993
Public service	211,300	221,800	189,105	32,695
Recreation and cultural	86,725	94,925	85,986	8,939
Contingency	57,879	66,800	0	66,800
Total expenditures	1,041,783	1,065,216	809,279	255,937
Excess (deficiency) of revenues over expenditures	(111,515)	(126,948)	252,934	379,882
<u>Other Financing (Uses)</u>				
Operating transfers out	(95,243)	(213,243)	(213,243)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(206,758)	(340,191)	39,691	379,882
Fund balance - beginning of year	710,967	710,967	710,967	0
Fund balance - end of year	\$ 504,209	\$ 370,776	\$ 750,658	\$ 379,882

CITY OF HARRISON
Required Supplemental Information
Budgetary Comparison Schedule - Library Operating Fund
For the Year Ended December 31, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 4,800	\$ 4,800	\$ 8,462	\$ 3,662
Charges for services	42,209	44,430	44,430	0
Penal fines	70,000	82,428	82,428	0
Miscellaneous	48,256	23,556	27,365	3,809
Interest	4,500	1,000	3,279	2,279
Total revenues	169,765	156,214	165,964	9,750
<u>Expenditures</u>				
Recreation and cultural	192,119	201,457	184,761	16,696
Excess (deficiency) of revenues over expenditures	(22,354)	(45,243)	(18,797)	26,446
<u>Other Financing Sources</u>				
Operating transfer in	45,243	45,243	45,243	0
Excess of revenues and other financing sources over expenditures	22,889	0	26,446	26,446
Fund balance - beginning of year	110,860	110,860	110,860	0
Fund balance - end of year	<u>\$ 133,749</u>	<u>\$ 110,860</u>	<u>\$ 137,306</u>	<u>\$ 26,446</u>

CITY OF HARRISON
Required Supplemental Information
Budgetary Comparison Schedule - Fire Fund
For the Year Ended December 31, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Charges for services	\$ 268,012	\$ 268,012	\$ 268,012	\$ 0
Miscellaneous	30,915	30,915	30,980	65
Interest	3,000	3,000	8,652	5,652
Total revenues	301,927	301,927	307,644	5,717
<u>Expenditures</u>				
Public safety	474,698	509,992	139,688	370,304
Excess (deficiency) of revenues over expenditures	(172,771)	(208,065)	167,956	376,021
<u>Other Financing Sources (Uses)</u>				
Transfers out	(65,600)	(65,054)	(64,724)	330
Excess (deficiency) of revenues over expenditures	(238,371)	(273,119)	103,232	376,351
Fund balance - beginning of year	273,119	273,119	273,119	0
Fund balance - end of year	<u>\$ 34,748</u>	<u>\$ 0</u>	<u>\$ 376,351</u>	<u>\$ 376,351</u>

CITY OF HARRISON
Required Supplemental Information
Budgetary Comparison Schedule - Local Improvement Fund
For the Year Ended December 31, 2008

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Miscellaneous	\$ 10	\$ 0	\$ 0	\$ 0
Interest	9,000	9,000	11,624	2,624
Total revenues	9,010	9,000	11,624	2,624
<u>Expenditures</u>				
Public service	625,136	737,389	55,993	681,396
Excess (deficiency) of revenues over expenditures	(616,126)	(728,389)	(44,369)	684,020
<u>Other Financing Sources (Uses)</u>				
Transfers in	50,000	168,000	168,000	0
Transfers out	0	(10,000)	(10,000)	0
Total other financing sources (uses)	50,000	158,000	158,000	0
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	(566,126)	(570,389)	113,631	684,020
Fund balance - beginning of year	570,379	570,379	570,379	0
Fund balance - end of year	\$ 4,253	\$ (10)	\$ 684,010	\$ 684,020

CITY OF HARRISON
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2008

	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Budd Lake Improvement</u>	<u>Building Authority Fund</u>	<u>Totals</u>
<u>Assets</u>					
Cash and investments	\$ 127,318	\$ 41,434	\$ 74,804	\$ 2,340	\$ 245,896
Taxes receivable	<u>0</u>	<u>0</u>	<u>21,767</u>	<u>0</u>	<u>21,767</u>
Total Assets	<u><u>\$ 127,318</u></u>	<u><u>\$ 41,434</u></u>	<u><u>\$ 96,571</u></u>	<u><u>\$ 2,340</u></u>	<u><u>\$ 267,663</u></u>
<u>Fund Balance</u>					
Unreserved	<u><u>\$ 127,318</u></u>	<u><u>\$ 41,434</u></u>	<u><u>\$ 96,571</u></u>	<u><u>\$ 2,340</u></u>	<u><u>\$ 267,663</u></u>

CITY OF HARRISON
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended December 31, 2008

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Revenues</u>					
State shared revenue	\$ 104,088	\$ 61,888	\$ 0	\$ 0	\$ 165,976
Taxes and penalties	0	0	33,770	0	33,770
Interest	2,268	483	1,188	17	3,956
Other	5,885	0	0	0	5,885
Total revenues	112,241	62,371	34,958	17	209,587
<u>Expenditures</u>					
Public service	0	0	25,572	794	26,366
Highways and streets	74,171	124,026	0	0	198,197
Debt service:					
Principal	0	0	0	16,000	16,000
Interest	0	0	0	33,670	33,670
Total expenditures	74,171	124,026	25,572	50,464	274,233
Excess (deficiency) of revenues over expenditures	38,070	(61,655)	9,386	(50,447)	(64,646)
<u>Other Financing Sources (Uses)</u>					
Transfers in	0	50,968	0	49,670	100,638
Transfers (out)	(40,968)	0	0	0	(40,968)
Total other financing sources (uses)	(40,968)	50,968	0	49,670	59,670
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(2,898)	(10,687)	9,386	(777)	(4,976)
Fund balance - beginning of year	130,216	52,121	87,185	3,117	272,639
Fund balance - end of year	\$ 127,318	\$ 41,434	\$ 96,571	\$ 2,340	\$ 267,663

CITY OF HARRISON
City of Harrison Water Extension Project
Selected Information
For the Year Ended December 31, 2008

1. A separate report on internal control can be found on page 35.
2. The accounting records and methods were satisfactorily maintained.
3. Proper physical controls over assets were exercised.
4. Deposited funds of \$617,425 are in institutions insured by the Federal Government. However, auto investment sweep accounts (formerly municipal investment fund accounts) of \$532,000 are not insured.
5. The financial records reflected in the audit are in agreement with the accounting records of the Water Supply System.
6. The aging of accounts receivable is as follows:

0 - 30 days	\$	3,705
31 - 60 days		1,533
61 - 90 days		395
91 days and older		801
	\$	<u>6,434</u>

7. The loan agreement requires the maintenance of cash reserves in the amount of \$1,000 and \$500 be deposited quarterly to the Junior Lien Bond Reserve Account and Replacement Account, respectively, until a total of \$32,000 and \$5,000 has been reached, respectively. The loan agreement also requires the maintenance of a cash reserve deposited in the Junior Lien Redemption Account for payment of principal and interest on the Bonds. A sum equal to at least ½ of the interest due on the next ensuing interest due date and not less than ¼ of the principal maturing on the next ensuing principal payment date is required. The Bond Reserve Account and the Replacement Account have a balance of \$32,000 and \$5,000, respectively, as of December 31, 2008. The Junior Lien Redemption Account has a balance of \$16,500 as of December 31, 2008.
8. The City of Harrison carries the following insurance policies:
 - a. Comprehensive general liability and public officials errors and omissions, policy number MML001303123, policy amount of \$5,000,000, expiration date 1/1/09.

CITY OF HARRISON
City of Harrison Water Extension Project
Selected Information
For the Year Ended December 31, 2008

- b. Property policy to cover the fixed assets of Water Supply System, policy number MML001303123, policy amount of \$1,291,365, expiration date 1/1/09.
 - c. Business auto liability, policy number MML001303123, policy amount of \$5,000,000, expiration date 1/1/09.
 - d. Fidelity bond covering city treasurer, policy number BSH-1816029, policy amount of \$60,000, expiration date 9/1/10.
9. The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the City of Harrison City Council.

Mayor

Brook Wood	November 2010
1380 Byfield	
Harrison, MI 48625	

Council Members

Chris Damvelt	November 2010
2600 Mostetler	
Harrison, MI 48625	

Don Kolander	November 2010
445 Old County Farm St.	
Harrison, MI 48625	

Linda O'Leary	November 2010
202 N. Lake Street	
Harrison, MI 48625	

Stacey Stocking	November 2012
314 S. Second Street	
Harrison, MI 48625	

David Rowe	November 2012
209 W. Park	
Harrison, MI 48625	

Daniel Sullivan	November 2012
292 E. Pine Street	
Harrison, MI 48625	

Dates shown are term expiration dates.

10. No further information is necessary for full disclosure.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

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SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

February 11, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the City Council
City of Harrison
Clare County, Michigan

We have audited the financial statements of City of Harrison as of and for the year ended December 31, 2008, and have issued our report thereon dated date. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrison's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Harrison's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the

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GLADWIN AND WEST BRANCH



WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
February 11, 2009
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deficiencies described in the accompanying schedule of findings and responses to be significant in internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses as 2008-1 through 2008-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-1 through 2008-2, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harrison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

City of Harrison's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Harrison's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Members of the City Council, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

CITY OF HARRISON
Schedule of Findings and Responses
For the Year Ended December 31, 2008

2008-01

Criteria

Properly calculating and recording of cash collections, cash disbursements and utility billing and collection.

Condition

Lack of complete segregation of duties with respect to cash collections, cash disbursements and utility billing and collection.

Context

Applicable to cash collections, cash disbursements and utility billing and collection.

Effect

Errors in calculation, recording and use of City funds.

Cause

Lack of complete segregation of duties with respect to the cash collections, cash disbursements and utility billing and collection and implementation of compensating controls.

Recommendation

Increase oversight and implement proper segregation of duties regarding the cash collections, cash disbursements and utility billing and collection functions.

Views of responsible officials and planned corrective actions

Management will evaluate internal control items identified above and determine appropriate changes for the size of the City.

CITY OF HARRISON
Schedule of Findings and Responses
For the Year Ended December 31, 2008

SECTION II - Financial Statement Findings (Continued)

2008-02

Criteria

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor involvement.

Context

Internal controls should be in place to provide reasonable assurance to the City that management possesses the skills necessary to monitor and report annual financial activity without auditor involvement.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the City's internal controls over financial reporting.

Recommendation

The City should review and implement the necessary education and procedural activities to monitor and report annual financial activity as funding is available.

Views of the Responsible Officials and Planned Corrective Action

Currently the City does not have the funding to implement such a program. We intend to re-evaluate once funding becomes available for the additional education and monitoring.



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
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ROBERT J. DUYCK, CPA

February 11, 2009

Members of the City Council
City of Harrison
Harrison, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Harrison for the year ended December 31, 2008 and have issued our report thereon dated February 11, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated December 17, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Harrison. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the City of Harrison's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on December 17, 2008.

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WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
February 11, 2009
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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Harrison are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
February 11, 2009
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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 11, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Weinlander Fitzhugh

CITY OF HARRISON
Summarized Schedule of Uncorrected Misstatements
December 31, 2008

	<u>Effect - Increase (Decrease)</u>	
	<u>Net</u>	<u>Fund</u>
	<u>Income</u>	<u>Balance</u>
<u>General Fund:</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unrecorded state revenue sharing	\$ (31,979)	\$ 0
Unrecorded retirement incentives	12,487	0
Differences with estimates	0	0
Projected errors	0	0
<u>Current year misstatements</u>		
Known errors:		
Unrecorded state revenue sharing	0	0
Unrecorded retirement incentive	0	0
Differences with estimates	0	0
Projected errors	0	0
	<hr/>	<hr/>
Net effect on current year	\$ (19,492)	\$ 0
	<hr/>	<hr/>
<u>Special Revenue Funds</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unrecorded Act 51 revenue in Major Street Fund	\$ (15,857)	\$ 0
Unrecorded Act 51 revenue in Local Street Fund	(8,840)	0
Differences with estimates	0	0
Projected errors	0	0
<u>Current year misstatements</u>		
Known errors:		
Unrecorded Act 51 revenue in Major Street Fund	15,290	15,290
Unrecorded Act 51 revenue in Local Street Fund	7,987	7,987
Differences with estimates	0	0
Projected errors	0	0
	<hr/>	<hr/>
Net effect on current year	\$ (1,420)	\$ 23,277
	<hr/>	<hr/>

CITY OF HARRISON
Summarized Schedule of Uncorrected Misstatements
December 31, 2008

	<u>Effect - Increase (Decrease)</u>	
	<u>Net</u>	<u>Net</u>
	<u>Income</u>	<u>Assets</u>
<u>Proprietary Funds:</u>		
<u>Carryover impact from previous years</u>		
Known errors:		
Unbilled accounts receivable	\$ (70,941)	\$ 0
Unrecorded accrued interest on bonds	85,985	0
Differences with estimates	0	0
Projected errors	0	0
<u>Current year misstatements</u>		
Known errors:		
Unbilled accounts receivable	65,278	65,278
Unrecorded accrued interest on bonds	(84,277)	(84,277)
Differences with estimates	0	0
Projected errors	0	0
	<hr/>	<hr/>
Net effect on current year	<u>\$ (3,955)</u>	<u>\$ (18,999)</u>